

# Business Debt Index

Quarterly Summary - Q2 2024

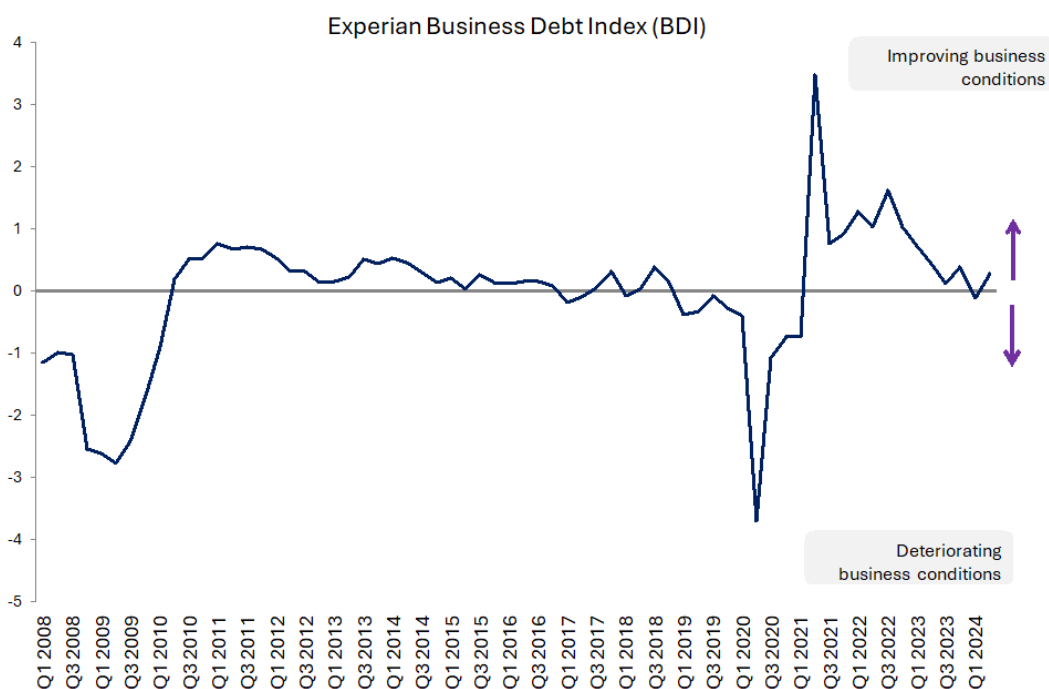
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## EXPERIAN BUSINESS DEBT INDEX (BDI) RESULTS FOR Q2 2024

### Improvement in Experian BDI in Q2 mainly buoyed by favourable business debt metrics

The Experian Business Debt Index (BDI) for Q2 reflects an improvement in business debt conditions to a reading of 0.28 from -0.10 in Q1. (The -0.10 reading for the Q1 BDI was revised marginally from the -0.01 reading presented three months ago.)



	Q2 2023*	Q3 2023*	Q4 2023*	Q1 2024*	Q2 2024
<b>Index</b>	0,45	0,12	0,39	-0,10	0,28
>0= Improving business conditions					
<0 = Deteriorating business conditions					

\* Revised

## Macroeconomic factors influencing Q2 2024

In terms of the impact on the overall BDI, there was a mixed outcome for macroeconomic variables during Q2.

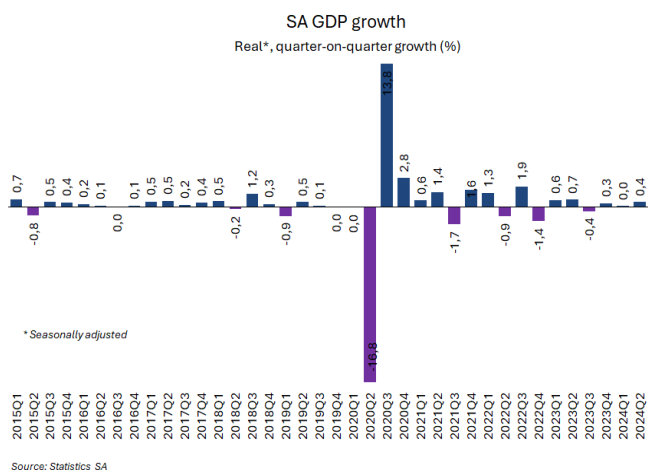
A general improvement in economic sentiment helped bring this about.

There were three overall reasons why sentiment improved.

- First, load-shedding ceased at the end of Q1.
- Second, prospects for a reduction in interest rates gradually took hold on the back of declining inflation, which was assisted by a strengthening of the Rand.
- Third, linked to the latter, there was an improvement in confidence that South Africa's economic prospects would turn around as a result of political developments.

Although South Africa's GDP growth improved during Q2 to 0.4% q-o-q from 0.0% in Q1, the impact on the BDI was technically ambivalent. (The 0.0% growth of Q1 had itself been revised by Stats SA upwards from an earlier -0.1% reported three months ago.)

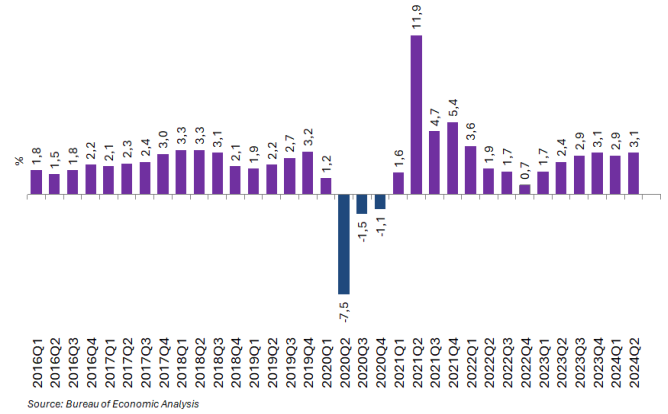
On a y-o-y basis, GDP growth improved from 0.4% in Q1 to 0.7% in Q2, and once the figures were de-meant, this was found to have had a slightly negative contribution to BDI.



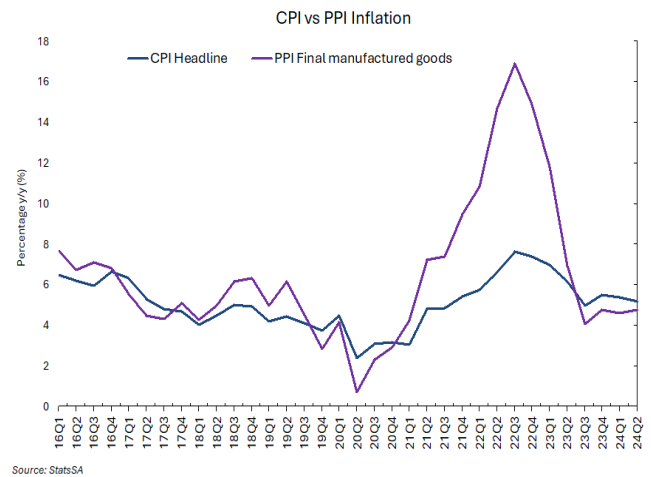
Other macroeconomic variables also had relatively minor influences on the overall BDI.

A slight boost to the BDI was provided by an improvement in US economic growth from 2.9% y-o-y in Q1 to 3.1% in Q2.

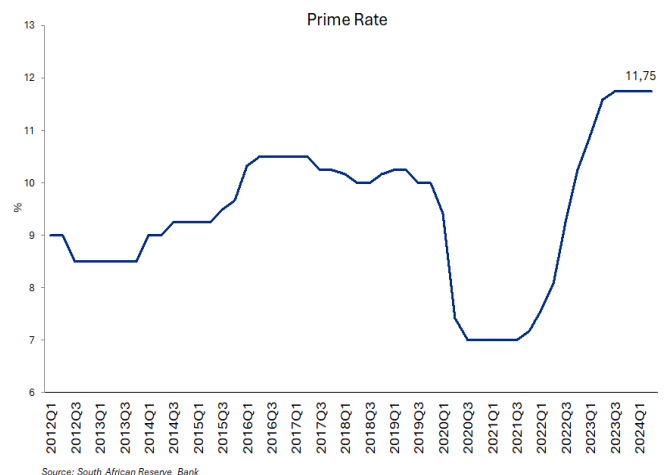
USA GDP growth (real y/y growth, seasonally adjusted)



Even though the PPI inflation rate fell slightly faster than the CPI inflation rate, on a de-meant basis, it also contributed to boosting the BDI by enhancing business profitability.



Interest rate differentials between South Africa and the US remained mostly unchanged, whilst on the domestic front, there was a slight increase in the differential between short- and long-term interest rates, which contributed marginally to the BDI improvement.



However, much more important in terms of boosting the BDI in Q2 was the significant reduction in outstanding debtors' days of companies as measured by Experian.

This appears to have been a function of the absence of load-shedding enabling businesses to pay back their debts within agreed terms, to a greater extent.

In earlier research published by the Reserve Bank, load-shedding had been found to have reduced 2023 GDP growth by no less than 1.5%.

It followed that in the absence of load-shedding, economic development could have been improved by that order of magnitude.

More generally, Q2 was associated with the beginning of a gradual improvement in business sentiment which has continued to the present and has been reflected in a rise in the BER/RMB Business Confidence Index to its best level in two years.

Business sentiment was also enhanced by improved confidence regarding the country's political dynamics.

As a result, the Rand began to strengthen, reducing inflationary pressures. This raised the potential for interest rates to be decreased domestically during the latter part of the year.

The very expectation thereof at the margin also helped to boost consumer sentiment, which had already been assisted by the increase in disposable income resulting from a moderate reduction in inflation through the course of Q2.

The Government of National Unity (GNU) was formed only in June, i.e., the latter part of Q2.

Even so, the combination of no load-shedding, relief at the reduced probability of populist elements being incorporated into a new government, and a stronger Rand and concomitant lower inflation already began improving business sentiment in April and May.

In the wake of the relatively peaceful general election in late May, there was also relief that the country was able to transition peacefully from a majority-led political

dispensation to one in which no single party would gain dominance.

On the contrary, sentiment improved on the realisation that a GNU consisting of ten political parties would ensure increased oversight of financing processes within a government that would act to limit corrupt practices.

In addition, it was recognised that the GNU, excluding more populist political elements, would embrace private sector involvement in finding solutions to South Africa's service delivery problems.

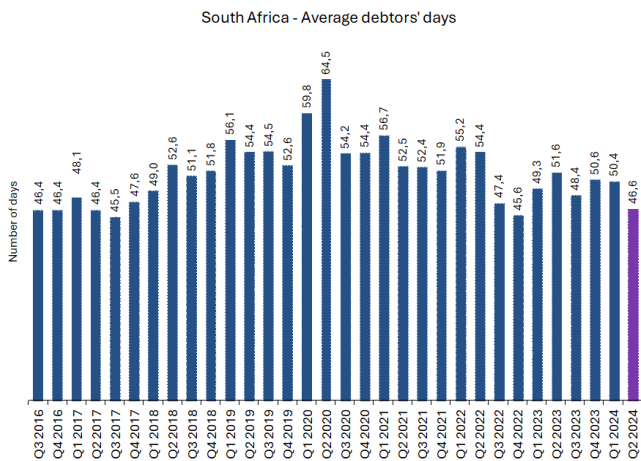
The combination of these two elements would be particularly potent in improving the functioning of key SOEs so critical in the delivery of basic services in areas such as electricity and transport and logistics.

Less corruption would also result in less strain on the financial resources of such state-owned utilities.

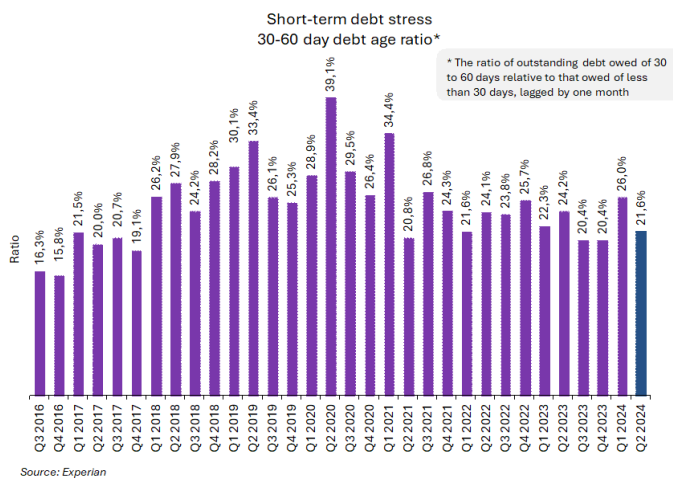
## Business debt metrics in Q2 2024

Nonetheless, in terms of the BDI itself, it was the dynamics relating to improved business sentiment and improved business conditions due to the absence of load-shedding, that had the biggest impact via enhancing the willingness of businesses to pay off their debts faster.

The average number of days of outstanding debts more generally fell from 50.4 in Q1 to 46.6 in Q2, its lowest level in 18 months and the second lowest in six years.



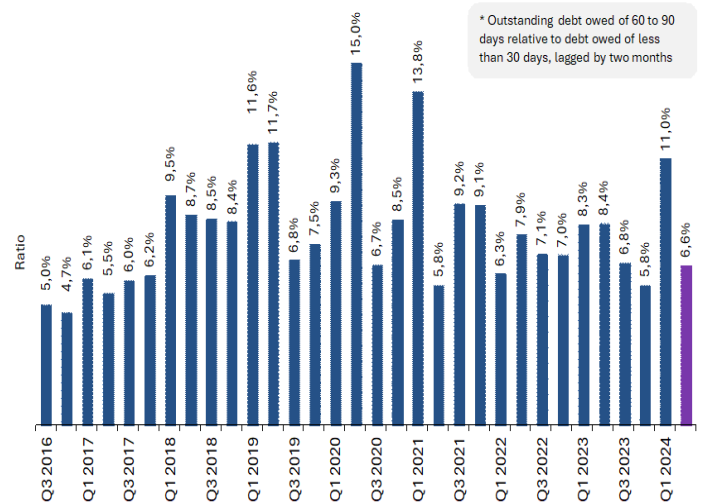
From a BDI measurement point of view, the critical ratio of outstanding debts of **30 to 60 days ratio**<sup>1</sup> fell quite sharply from 26.0 to 21.6.



Similarly, **60 to 90 ratio**<sup>2</sup> fell from 11.0 to 6.6. After the end of Q2, the BER Business Sentiment Index reflected a healthy increase in Q2 to its best level in two years as if to endorse the dynamics that prevailed in Q2, which boosted the BDI.

<sup>1</sup> The ratio of outstanding debt owed of 30 to 60 days relative to that owed of less than 30 days, lagged by one month

Long-term debt stress:  
60-90 day debt age ratio\*

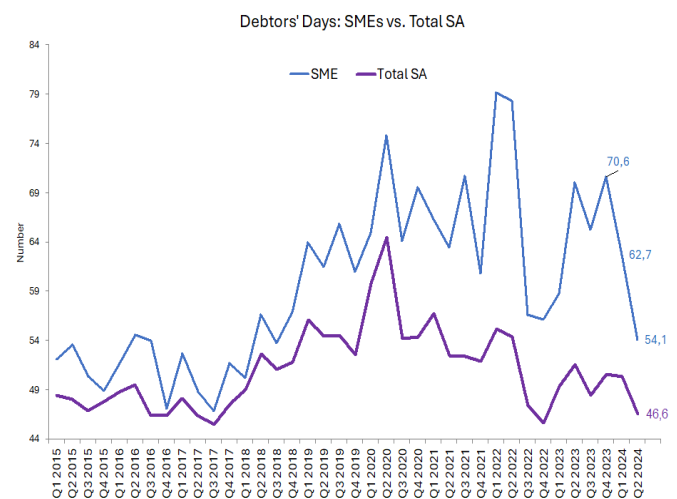


Source: Experian

## BDI by company size

This improvement in sentiment was reflected even more strongly in the situation concerning outstanding debtors' days relevant to small businesses.

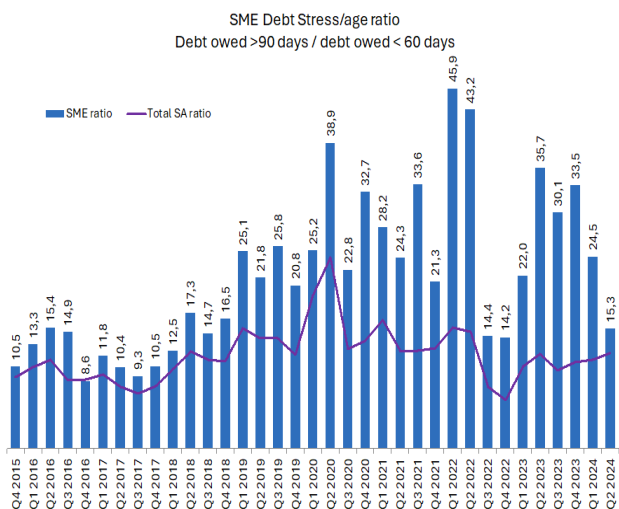
The number of outstanding debtors' days of small businesses, as opposed to the overall sample, declined even more dramatically, to 54.1 days in Q2 from 62.7 in Q1, which ratio had itself declined from 70.6 in Q4 of 2024.



As a result, the stress ratio relating to small businesses fell dramatically.

<sup>2</sup> The ratio of outstanding debt owed of 60 to 90 days relative to debt owed of less than 30 days, lagged by two months

The SME debt stress ratio<sup>3</sup> fell to just 15.3 in Q2, from 24.5 in Q1, sharply down on the corresponding ratio of 33.5 in Q4 of 2024.



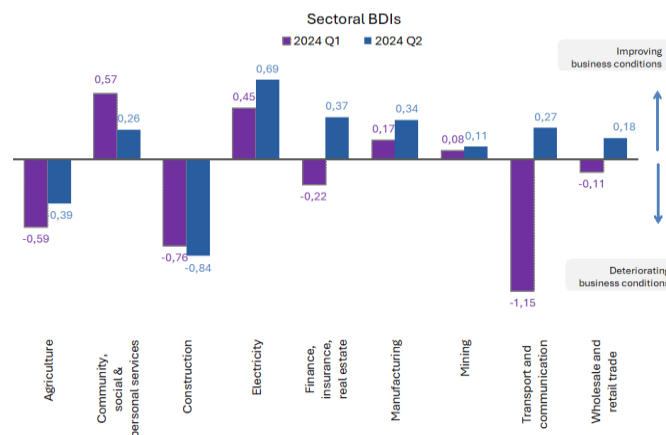
It is difficult to determine which of the three factors contributing towards improved business sentiment was the more dominant one in affecting the willingness and ability of small businesses to meet their debt commitments more speedily.

Was it the elimination of load-shedding, the more encouraging political outlook from a business point of view or the prospect of interest rates declining?

All that one can say is that the environment has improved further through Q3 in all of these respects, which bodes well for an upside surprise in economic growth prospects in the medium and long term.

## BDI by sector

The improvement in the overall BDI was reflected in the BDI of seven of the nine economic sectors reflected in the BDI.

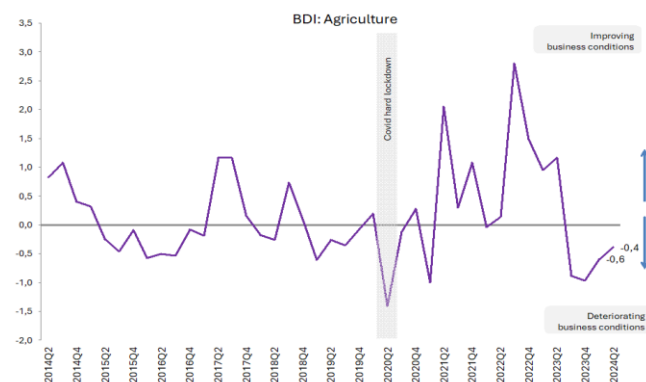


The only ones posting a deterioration in Q2 were construction and community and social services.

This was more or less in line with the Q2 GDP outcomes for each sector.

The construction sector remains in the doldrums as the weakest of all economic sectors, reflecting the dearth of infrastructural investment in an environment where the construction Mafia has been having a destructive impact.

The other sector to record a negative BDI, i.e., deteriorating business debt conditions, was agriculture, where the brief recovery in GDP in Q1 was overturned in Q2 due to various factors, including foot-and-mouth disease and drought conditions.



Not surprisingly, the most positive BDI was the electricity sector in the wake of the improvement in supply and elimination of load-shedding.

<sup>3</sup> The ratio of outstanding debt owed by SMEs of 90 to 120+ days relative to that owed of less than 60 days

## Outlook

Currently, most forecasts for economic growth, including those from the IMF, have the domestic growth rate rising from around 1% this year to about 1.5% next year and just under 2% in 2026.

The elimination of load-shedding, a more favourable political outlook from a business perspective, and the potential for declining interest rates all indicate that the environment has further improved throughout Q3.

However, if all these dynamics play out favourably, the economic growth rate could exceed current expectations.

Indeed, one may wonder whether the recent strengthening of the Rand reflects a meaningful improvement in GDP performance being factored into the markets.

As much as there is a significant upside to economic growth forecasts and conditions, one must also recognise some important headwinds should not be overlooked.

Domestic political challenges, such as ideological misalignment within elements of the GNU, could result in further prevarication when implementing infrastructural investment projects and other projects aimed at enhancing service delivery.

Internationally, there is considerable uncertainty surrounding the outcome of the US presidential elections and the potential that this might have to exacerbate the excessive burden of public debt in the US and other leading economies.

This could lead to an expected fall in international interest rates proving to be short-lived.

Besides the expectation of lower interest rates on the back of reduced inflation and the absence of load-shedding, together with the improved consumer and business sentiment associated with the formation of the GNU, some argue that consumer finances are set to improve because of the introduction of the two-pot retirement scheme as from 1 September.

This scheme aims to prevent people in difficult financial circumstances from leaving their jobs in order to access

their full retirement benefits. Instead, the two-pot system compels persons belonging to a pension or retirement fund to retain two-thirds of their pension in place until retirement, but at the same time, offers people the opportunity to cash in the other third of their retirement savings from the beginning of September.

Thereafter, one-third of their contributions to a retirement fund are to be invested in a pot which can be accessed once a year, whilst the other two-thirds remain invested in a separate pot and cannot be accessed until retirement.

There have been suggestions that the introduction of this new system will result in a surge in consumer spending or, at the very least, enable highly indebted individuals to reduce their indebtedness by accessing the funds they are entitled to draw on.

What is unclear is the order of magnitude of the relief to consumer finances to be provided by the new retirement system. It is important to note that the maximum actual quantum of drawdown possible is R30,000 in any one year.

This implies that higher-income individuals are restricted in drawing on a meaningful amount of their wealth at any time.

In theory, if all members of retirement funds were to draw the maximum amount to which they are entitled and use this for consumption purposes, then one could be looking at a maximum injection into the economy of R300bn, which is quite meaningful.

However, this does not take into account the fact that such withdrawals are subject to taxation at the marginal tax rate of the individual concerned. This immediately waters down the amount that can be withdrawn to around R200bn.

One must then take into account that only a portion of individuals will indeed try and access this benefit. This is because of the tax implications and the fact that people will have been persuaded by financial institutions that, in the long run, it will be far more profitable to retain funds invested in their retirement funds in order to benefit from the compounding effect of the value of pre-tax funds remaining invested over time.

In the final instance, estimates are that somewhere between R40bn and R80bn will enter the economy over time. It should also be borne in mind that the administrative systems to cope with the inflow of funds will ensure that the influx into the economy is stretched out over a considerable period.

Nonetheless, one is talking about a possible boost of between 0.5% and 1.0% to economic activity over a year or two. This is significant but not massive. However, this could marginally improve business debt conditions in the coming year more than if the new retirement system had not been introduced.



# Explanatory notes regarding the Experian Business Debt Index

## What is the Experian Business Debt Index?

The Experian Business Debt Index (BDI) is an indicator of the overall health of businesses, as well as the South African economy. It measures the relative ability for business to pay its outstanding suppliers/creditors (i.e. amounts owed to other businesses) on time and tracks macro-economic indicators that can impact on the ability of companies to pay their creditors.

A number of debtors and macro-economic variables are combined into a single indicator of business debt stress.

In other words, the BDI is a reflection of the overall health of businesses and the position of debt settlement between businesses in the economy.

## How to interpret the index

The Experian BDI, as an indicator of the overall health of businesses, measures the relative ability of businesses to pay their outstanding creditors on time. It also incorporates trends in macroeconomic indicators, insofar as these impact on the ability of companies to pay their creditors. The index is constructed around a mean value of zero.

**Values above zero indicate less business debt stress and values below zero indicate business debt stress.**

Given the underlying data of the index, relative higher levels of debt indicate a weakening in the ability to pay outstanding creditors. Higher interest rates result in higher borrowing costs and an increase in business stress. Relatively higher production costs vs consumer costs decrease operating margins of business, while higher domestic and international growth could result in a better trading environment for businesses.

## Measured by using principle components

The Experian Business Debt Index (BDI) is constructed using principal components analysis. This is similar to the St. Louis Fed's Financial Stress Index (STLFISI) and the Kansas City Fed's FSI (KCFSI) in the USA. The principal components analysis is a statistical method that is used to extract factors responsible for the co-movement of a group of variables. As such, it is assumed that business stress is the primary factor influencing the co-

movement and by extracting the principal components, it is possible to build an index with a useful economic interpretation.

## Variables included

The Experian Business Debt Index is made up of Experian business debtors' data and public domain data. Variables include the following:

- 30 – 60 debtor days' ratio (debt compared to initial amount invoiced 30 days ago);
- 60 – 90 debtor days' ratio (debt compared to initial amount invoiced 60 days ago);
- South Africa consumer inflation and producer inflation spread;
- Interest rate spread (Repo vs US Federal Fund rates);
- Interest rate spread (R157 vs Repo);
- Real SA GDP (year-on-year percentage change);
- Real US GDP (year-on-year percentage change).

No provision is made for any leads or lags in any of the variables.

## Methodology used to construct the index

The index is constructed by first demeaning the individual indices - subtracting the index value from the index average and dividing it by the sample standard deviation (SD). The indices can now be expressed in the same units. Next, the method of principal components is used to calculate the coefficients of the variables in the EBSI. These coefficients are scaled so that the standard deviation of the index is 1. Lastly, each of the indices is multiplied by its respective adjusted coefficient.

When the index is updated quarterly, the values of the Experian Business Debt Index can change. This can occur either through a change in the coefficients (an updated re-estimation) or because of a change in the actual values of the variables in the sample. Because the data are demeaned and standardised, the value of the original sample will change as the sample mean and sample standard deviation of the underlying variables change.

## About Experian



We are the leading global information services company, providing data and analytical tools to our clients around the world. We help businesses to manage credit risk, prevent fraud, target marketing offers and automate decision-making. We also help people to check their credit report and credit score and protect against identity theft. In 2016, for the third year running, we were named one of the “World’s Most Innovative Companies” by Forbes magazine.

We employ approximately 17,000 people in 37 countries and our corporate headquarters are in Dublin, Ireland, with operational headquarters in Nottingham, UK; California, US; and São Paulo, Brazil.

Experian plc is listed on the London Stock Exchange (EXPN) and is a constituent of the FTSE 100 index. Total revenue for the year ended 31 March, 2016, was US\$4.6 billion.

To find out more about our company, please visit <http://www.experianplc.com> or watch our documentary, ‘[Inside Experian](#)’.

## About Econometrix



Econometrix is South Africa’s largest independent macro-economic consultancy based in Johannesburg. We are privately owned and, therefore totally independent of any official organisation or pressure groups. Econometrix – which has a successful track record of more than 40 years - is committed to ongoing research and analysis of economic fundamentals thereby ensuring a sound basis for future business decisions. These services are provided through a range of complementary products to more than 150 South African and international organisations.

Our approach is to empower our clients with quality decision support intelligence and assistance regarding the economic and financial environment, and assist them in their strategic and financial planning processes. Our in-depth analysis of economic fundamentals aims to assist our clients in commanding the economic environment and identifying opportunities and risks.

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**Next release date for the BDI:** December 2024

For more detailed analysis on the debt stress by sector, Experian publishes the *Business Debt Sectoral Overview* report, please contact Taryn Stanojevic at Experian for more information.